

Geopolitics and Global Value Chains

The International Business Landscape: 2019 and Beyond

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KEY THEMES

- **US-China Geopolitical Rivalry: Tariffs, NTBs, Export Controls, Sanctions, Protectionism, Nationalism Localization**

- **The Evolving Trade landscape: 3 Scenarios**

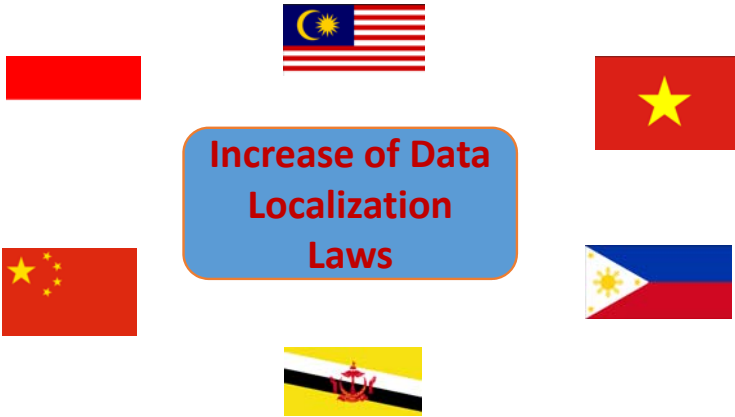
- Fair Trade Model
- China Inc. Model
- Nationalist Model

- **Localization & Fragmentation: Technology and Digital Trade**

- **What's Next for Global Value Chains?**



Rise of Nationalism



Increase of Data Localization Laws

Data Privacy Laws



Sanctions

Export Controls

Increase in Non-Tariff barriers



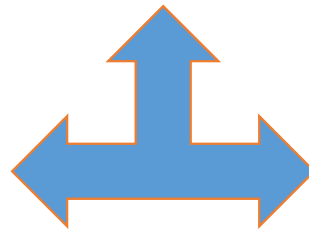
Licensing

US-China "Trade War and Tech War".



NON-TARIFF BARRIERS

- **What Are They?**



- **Why do they Matter?**

NON-TARIFF BARRIERS

Para-Tariff Measures

- Customs surcharges
- Internal taxes
- Transactional fees.

“National Security”

- Sanctions.
- Export licensing.
- Blocked Deals.

Standards Measures

- Technical Products
- Labeling.
- Safety
- Testing.
- Inspection
- Marking

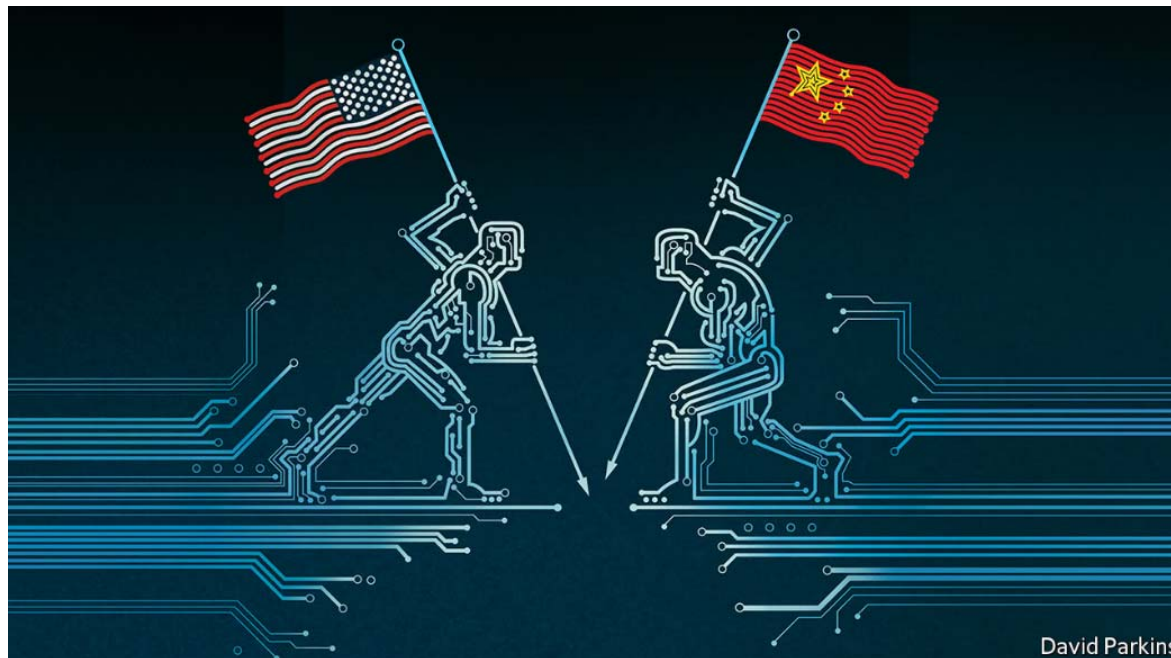
Price Measures

- “Voluntary” restraints.
- Variable charges.
- Price controls.

Finance Measures

- Advance payments.
- Advance deposits.
- Cash margin requirements.

EXPORT CONTROLS, TECH TRANSFERS & SANCTIONS



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U.S. Lifts Ban on China's ZTE After \$1.4 Billion Penalty

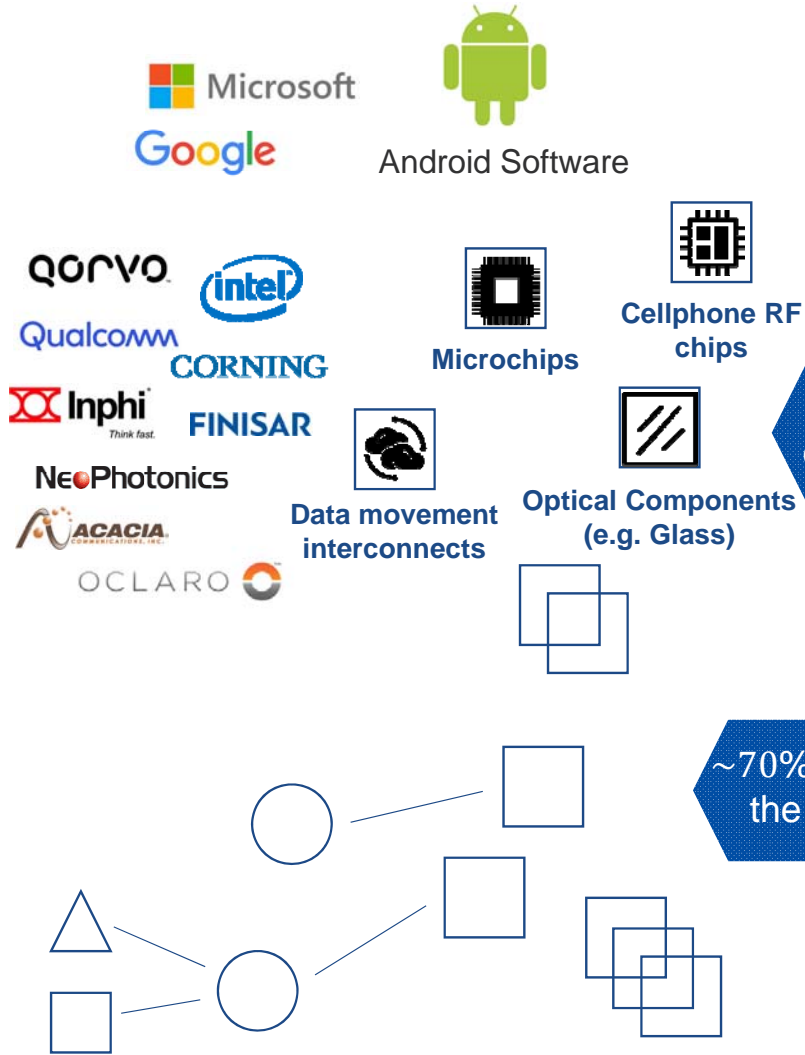


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US cuts of ZTE from American Tech Suppliers

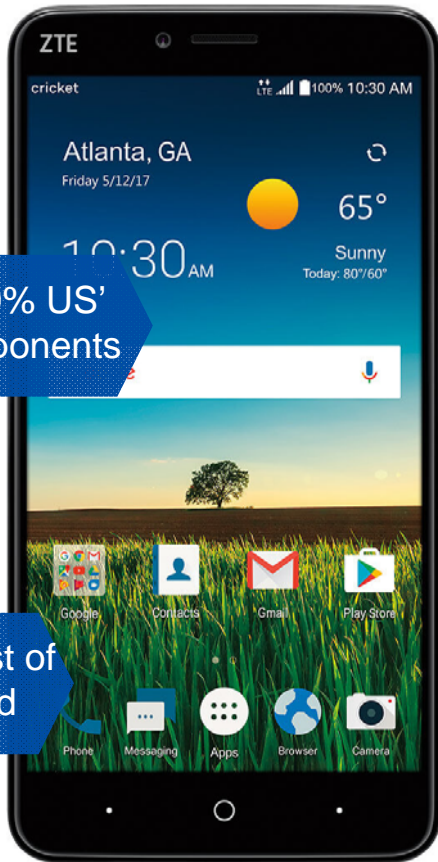
ZTE中兴



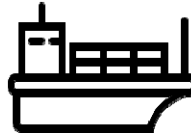


~30% US' components

~70% Rest of the world



43m
Handsets shipped in 2017 (9th in global smartphone market)



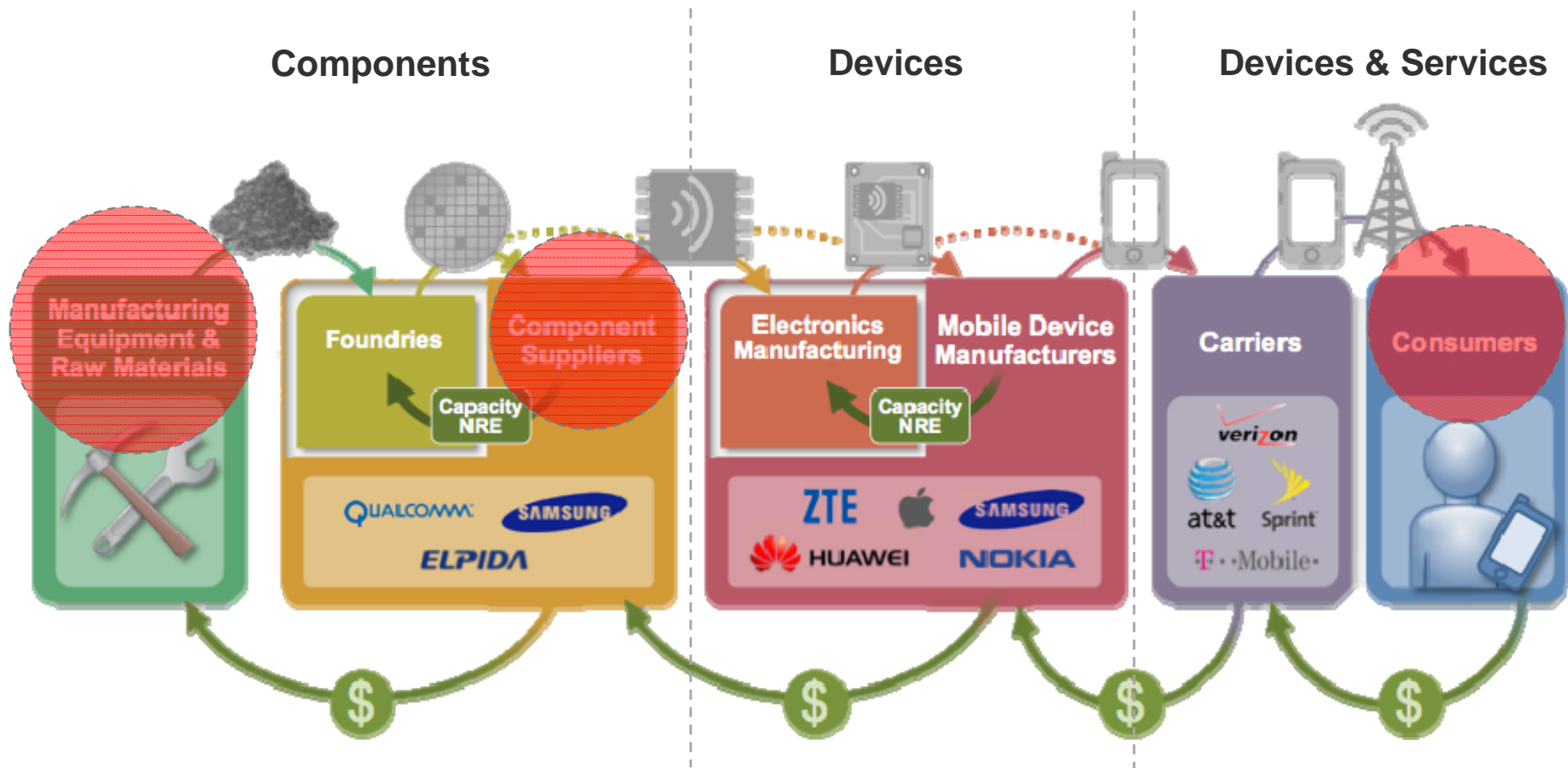
~33%
The weight of U.S sales of total overseas sales



~11%
Market share in the US (4th biggest player in the market)

Source: <https://www.reuters.com/article/us-usa-china-zte-components/u-s-suppliers-to-zte-may-find-more-demand-from-china-firms-rivals-idUSKBN1HP027>.

End-to-End Traceability



Source: <https://ctlsites.uga.edu/anth1102/smartphones-a9/>

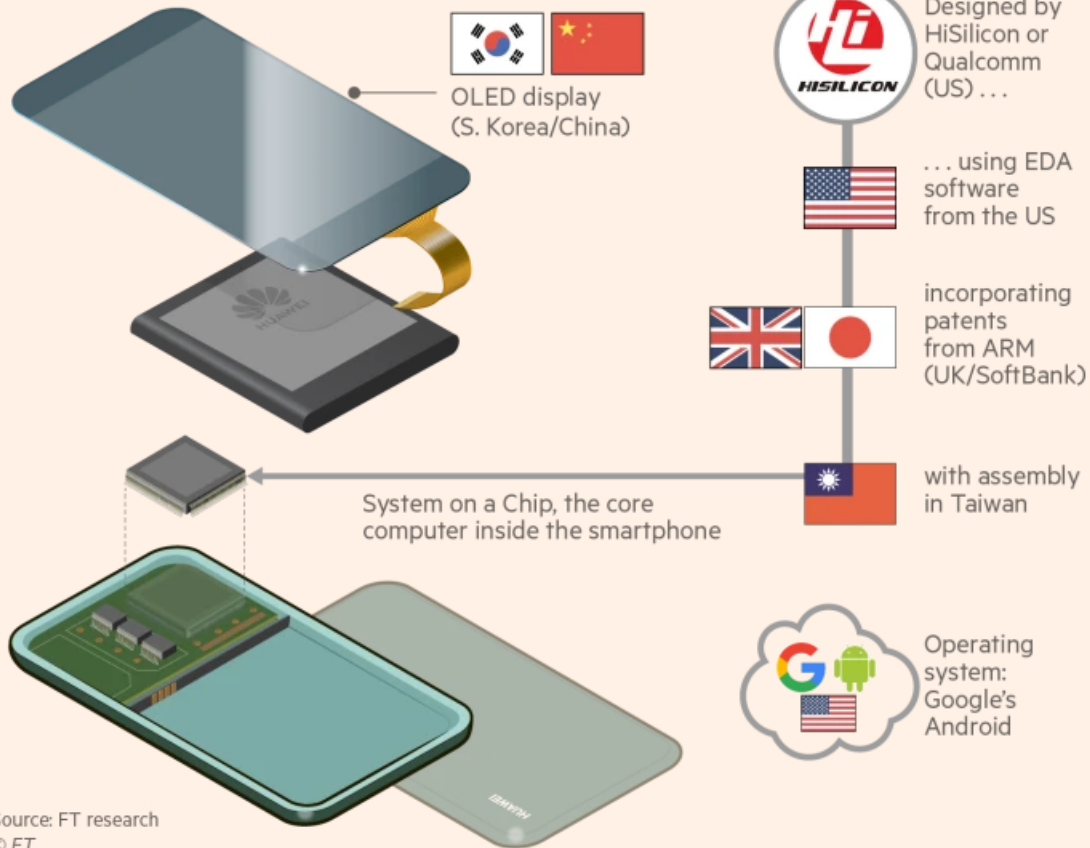
Pain Points

Are Chinese Tech Firms A Security Threat?



What goes into a Huawei smartphone?

How the Chinese phonemaker is reliant on foreign technology



What's Next Re: GVC Disruption?



Rare Earth Materials



Boeing Aircraft China Sales/Exports



University Research Funding & Overseas Students



Apples Market Share in China (30 % of global Revenue)



Public Listing of Chinese Firms on the US Stock Markets

EMERGING GLOBAL TRADE MODELS

The “Fair Trade”
Multilateral Rules
Frameworks

The “China Inc.”
Globalization
Model

The Unilateral
“Nationalist
Model”

**“FAIR TRADE”
&
MULTILATERAL RULES-BASED
FRAMEWORKS**

“Fair Trade Model”

“FTA Gold Standard”

- Promotes Transparency
- Environmental Standards
- Labor Standards
- Intellectual Property
- E-commerce rules
- Digital trade
- Data Privacy & Security

Good For Small and Medium Size (SMEs)

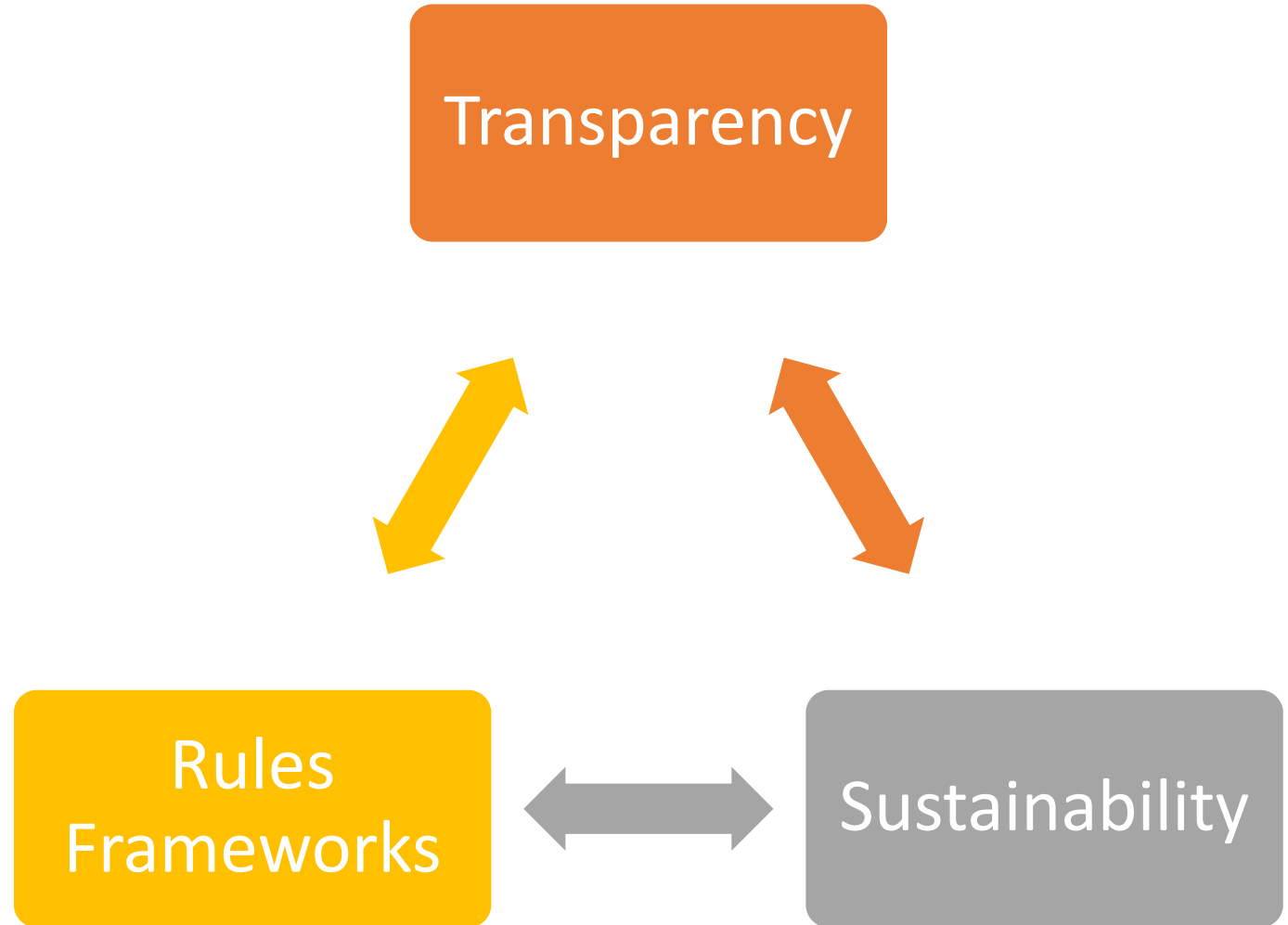
- Easier Rules of Origin
- Self Certification
- Broader Protections on Intellectual Property

Regulates State Owned Enterprises (SOEs)

- Must Operate Under Transparency Rules
- Purchases and Sales based on commercial Realities and Practices
- Cannot Discriminate Against Enterprises, Goods or Services
- Cannot Benefit from State Subsidies or Assistance

**Trade in the 21st
Century:**

**Technology as an
Enabler**



The China Inc. Globalization Model

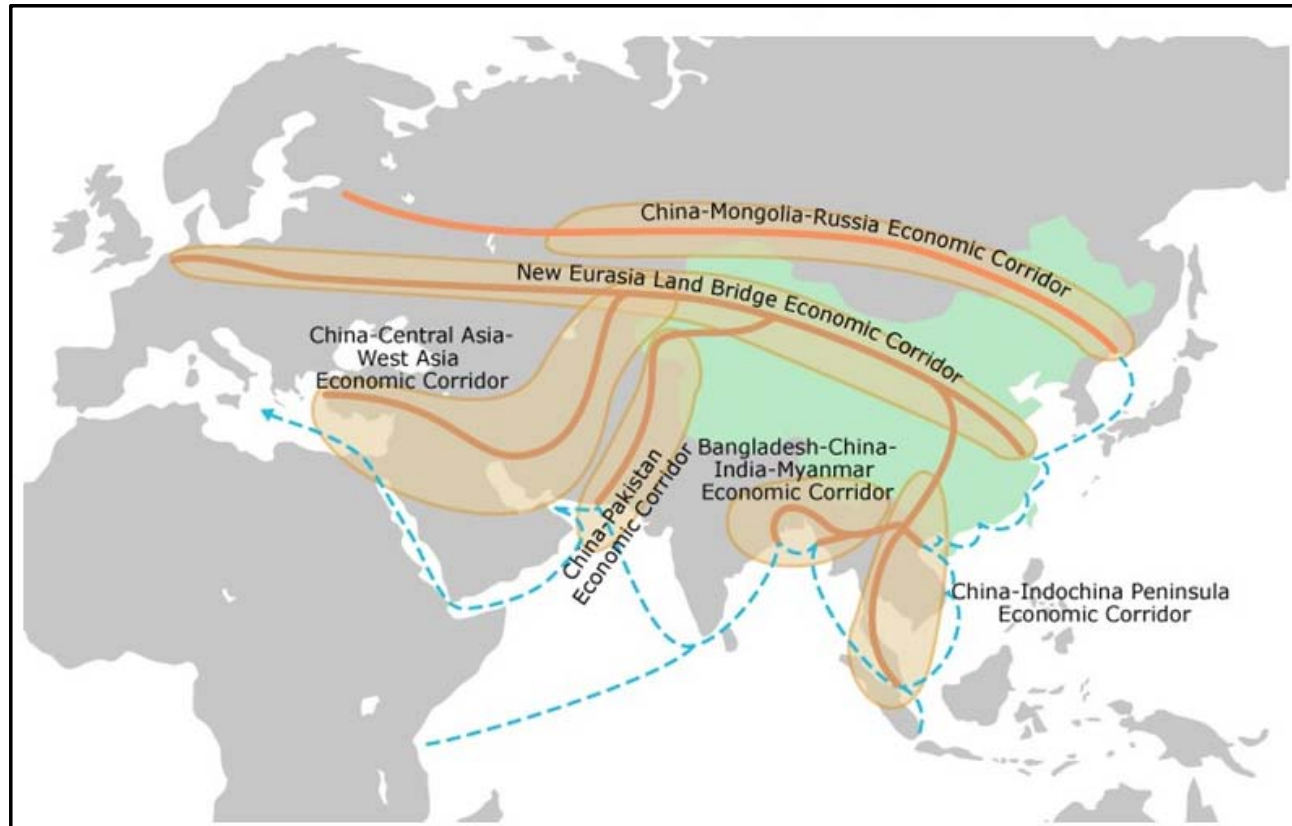
One-Belt-One-Road



“Belt” = Physical Road from China to Europe
“Road” = The Historic Maritime “Silk Road”

- 50 % of World GDP
- 65 Countries on 3 Continents
- 4.4 Billion People
- 60 % of the World’s Population

6 Economic Corridors Across Asia, Africa, Europe



Source: HKD Research

Regional Comprehensive Economic Partnership (RCEP)



- 16 Countries
- 45% of World's Population.
- 28% of GDP.
- Will involve Massive Infrastructure.
- Lead by China.
- AIIB to play a major role.

The Nationalist Trade Model

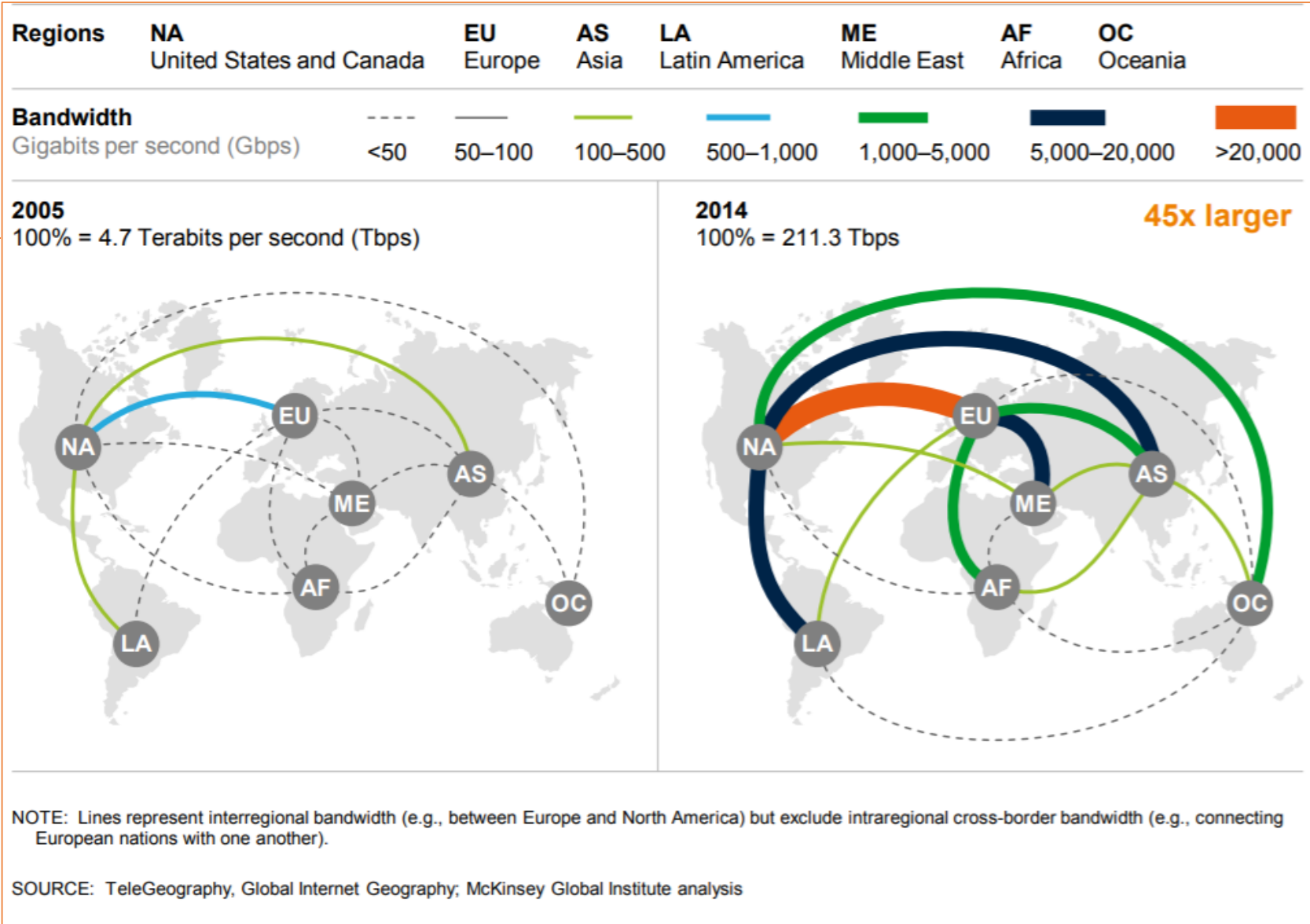
THE NATIONALIST TRADE MODEL



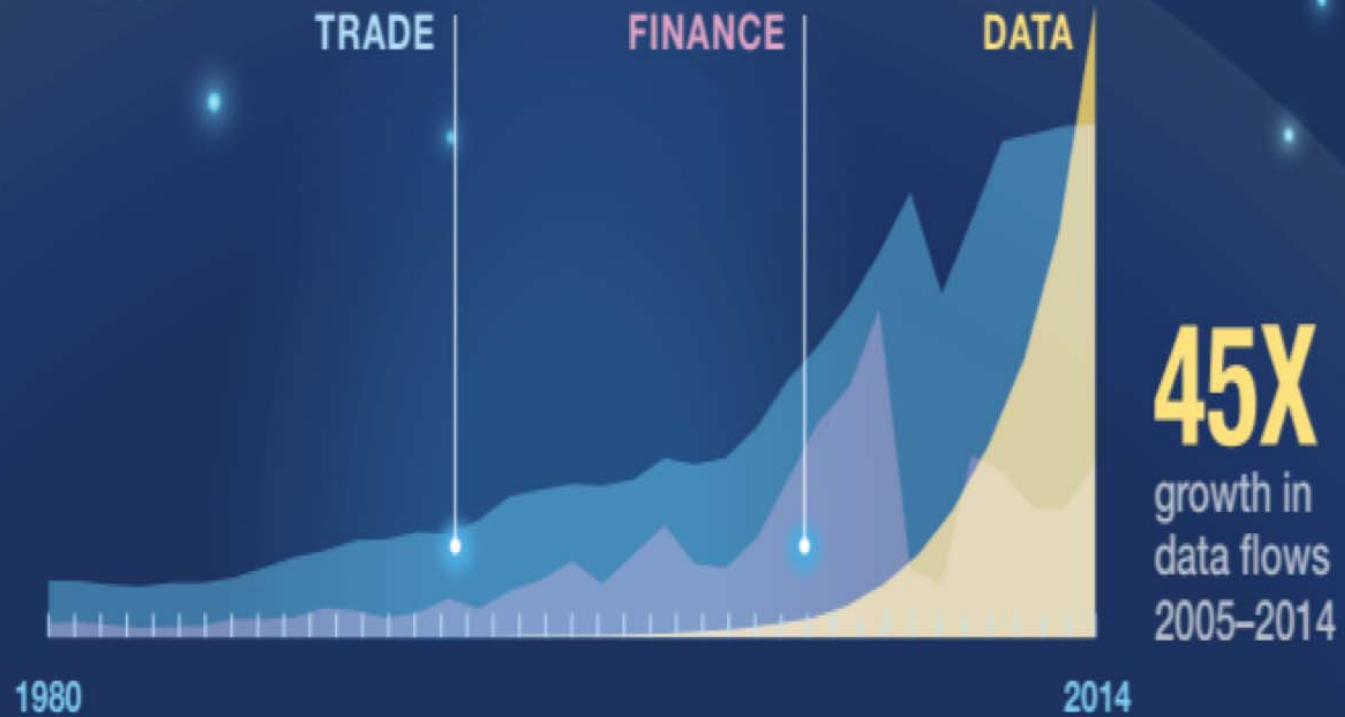
Cross Border Data Flows

Digital Trade in the 21st Century:

- Cross-border data flows are surging and connecting more countries.

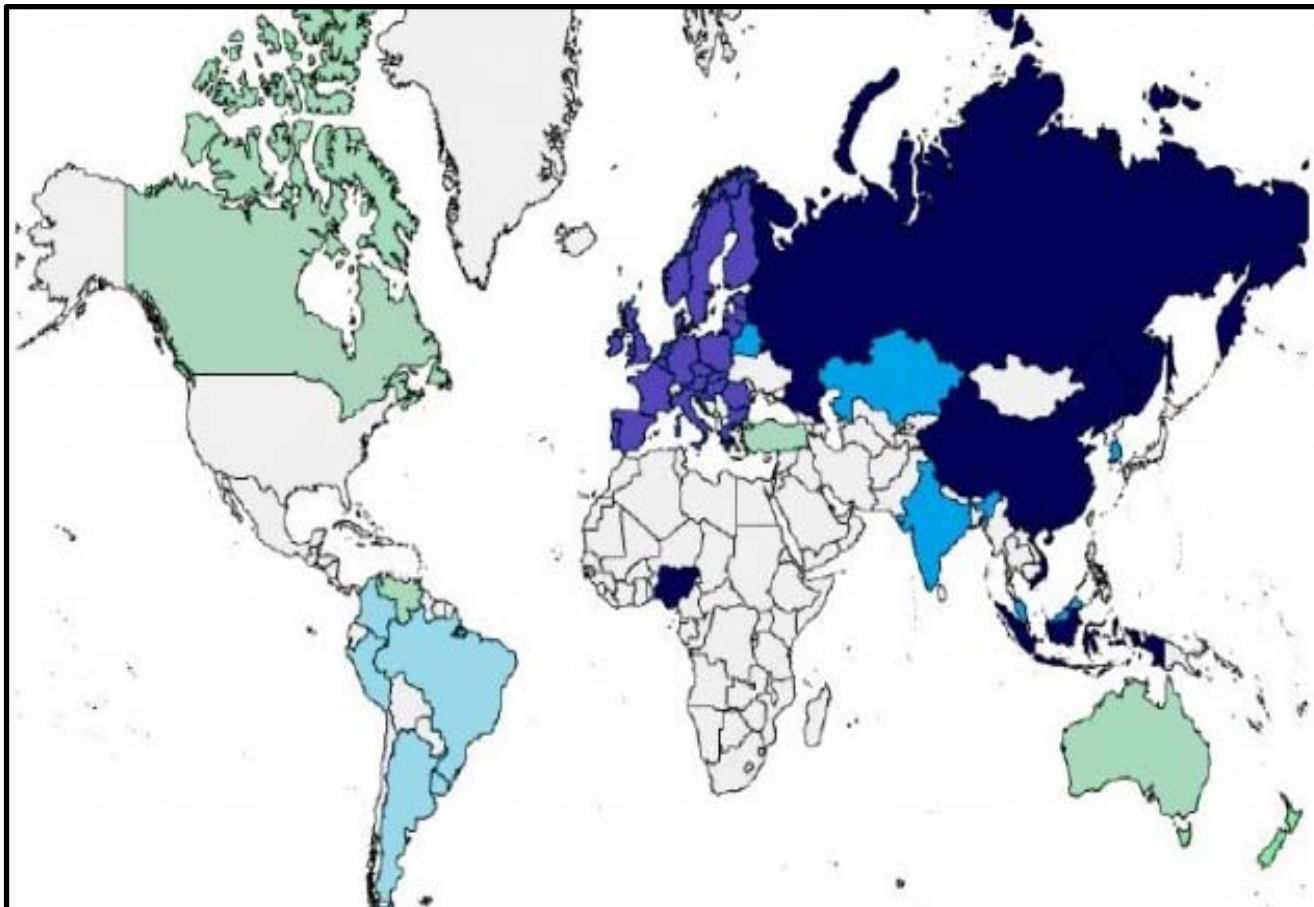


Global flows of trade and finance are flattening, while data flows are soaring



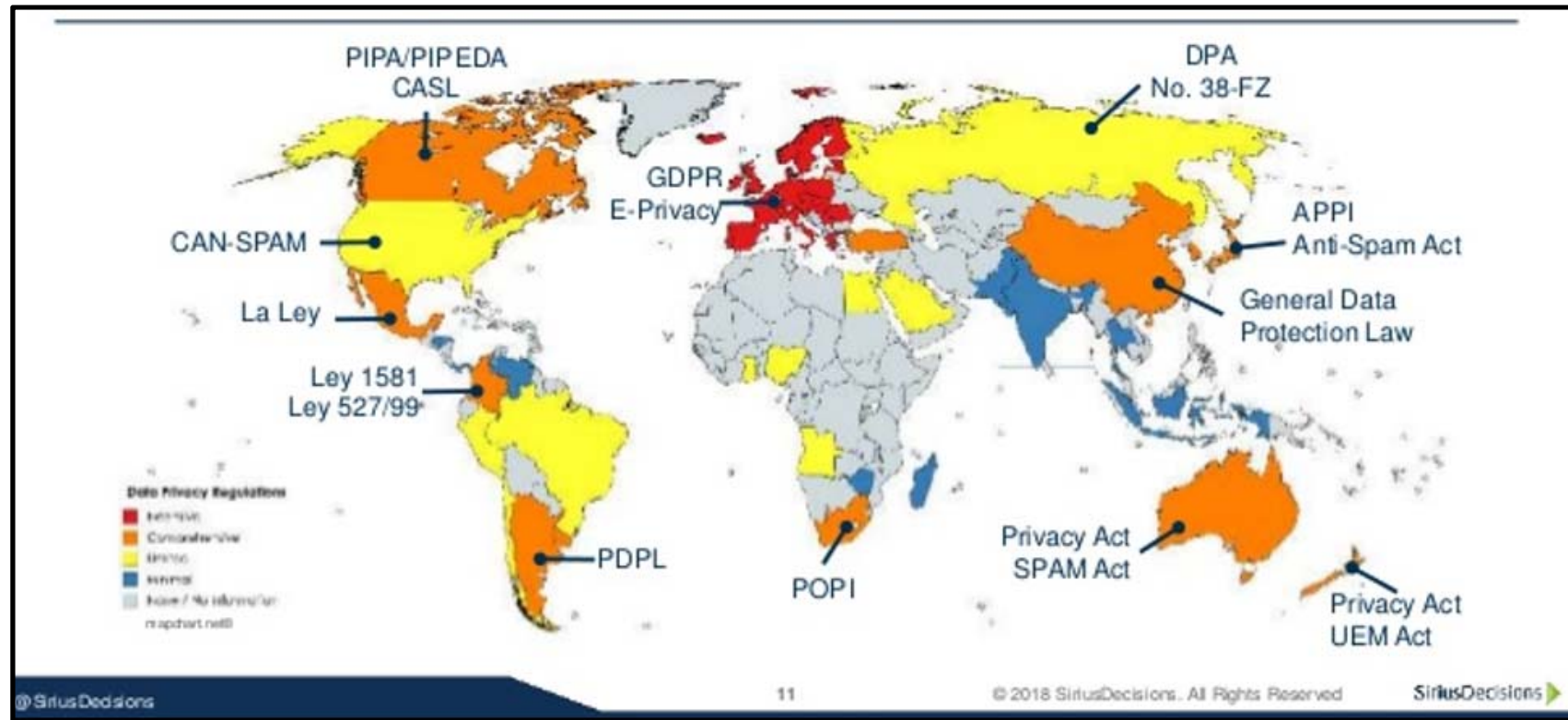
SOURCE: MCKINSEY

Data Localization Laws Are Surging



COLOR	STRENGTH OF MEASURES	COUNTRIES
Dark Blue	Strong: Explicit requirements that data must be stored on servers within the country.	Brunei, China, Indonesia, Nigeria, Russia, Vietnam
Dark Purple	De Facto: Laws that create such large barriers to the transfer of data across borders that they effectively act as data localization requirements.	European Union
Blue	Partial: Wide range of measures, including regulations applying only to certain domain names and regulations requiring the consent of an individual before data about them is transferred internationally.	Belarus, India, Kazakhstan, Malaysia, South Korea
Light Blue	Mild: Restrictions on international data transfers under certain conditions.	Argentina, Brazil, Colombia, Peru, Uruguay
Light Green	Sector-specific: Tailored to specific sectors, including healthcare, telecom, finance, and national security.	Australia, Canada, New Zealand, Taiwan, Turkey, Venezuela
Grey	None: No known data localization laws.	Remaining Countries

Data Privacy Regulations Around the World Will Increase



Digital Disruption & Trade in the 21st Century:

- E-commerce and the platform economy
- More Cross border B2B, B2C, P2P
- Social Media
- Sharing Economy

The Amazon logo, featuring a large, black, lowercase letter 'a' with a curved orange arrow underneath it that points from the bottom left to the top right.

Source: indiaretailing.com

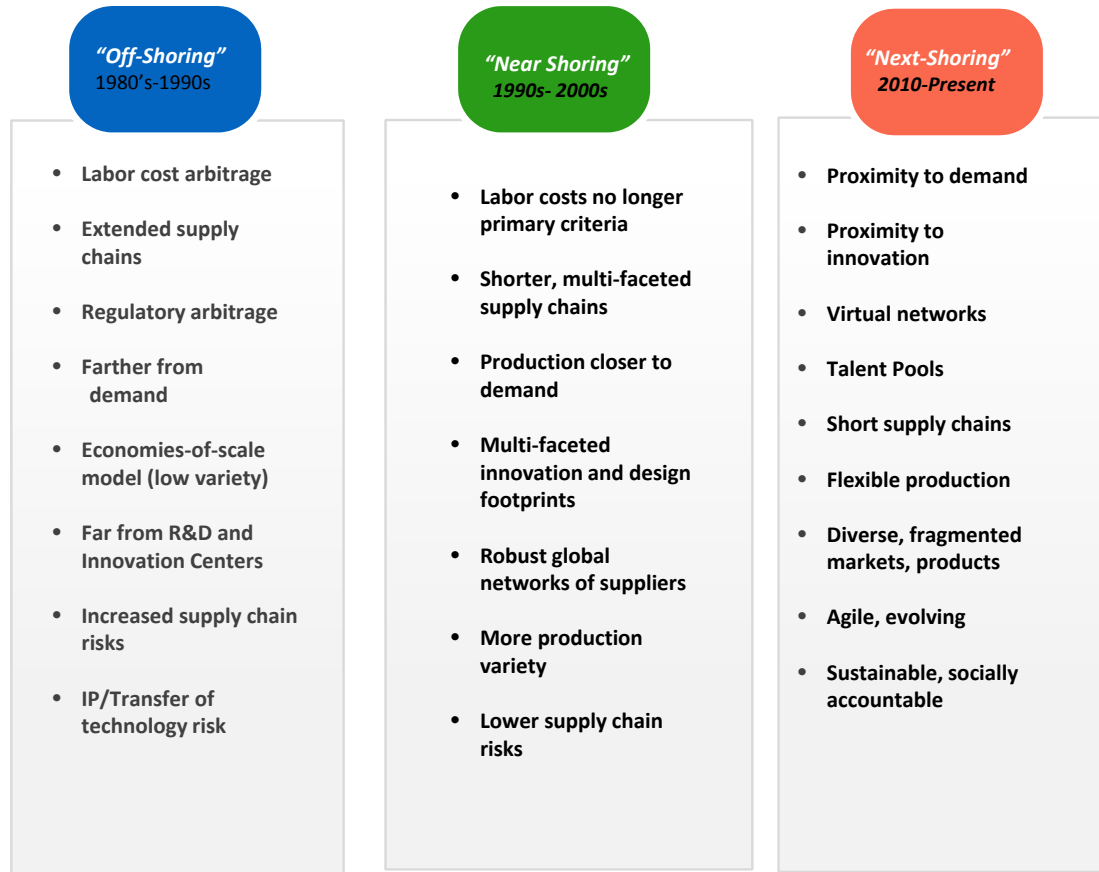
Changing Production Technologies

- **Automation: Scale Industries**
- **Additive Manufacturing (3D printing)**
- **Capital Substitution for Labour**
- **Transition: Asset Heavy to Asset Light Models**



Off-Shoring to Next Shoring

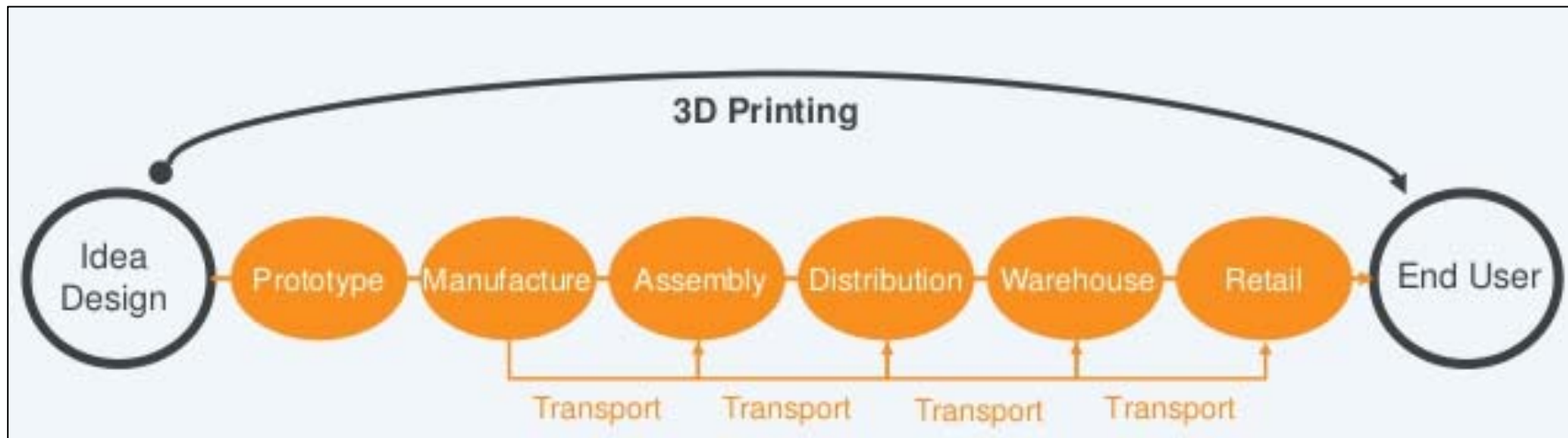
1980's - Present



3D- Localization, Fragmentation



3D Disintermediation



“Servicification” of GVCs

- **Digital Platforms** (Facilitation, management, maintenance, digital trade)
- **Commoditization of data**
- **IoT** (infrastructure, connectivity)
- **Sustainability and Ethics Service Providers** (NGOs, niche players)
- **AI & Knowledge Intensive Services**
(manufacturing of algorithms, cognitive data analysis)
- **Trust and Security Services** (privacy, security, truth)
- **Regulatory Compliance** (auditing, planning)
- **Taxation** (auditing, planning, optimization etc)
- **Shared Economy** (last-mile delivery; capacity optimization etc)



Small and Medium Sized Businesses

THE ECONOMICS OF SMALL BUSINESS

SMALL OR MEDIUM-SIZED

around
95%



BIG CORPORATIONS

around
5%

Source: World Bank

PRIVATE-SECTOR EMPLOYMENT



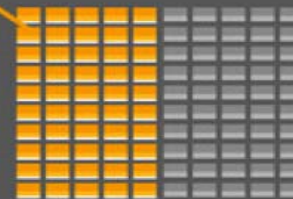
60% IN SMALL OR MEDIUM-SIZED BUSINESSES

Source: World Bank

CONTRIBUTION TO WORLD GROSS VALUE ADD

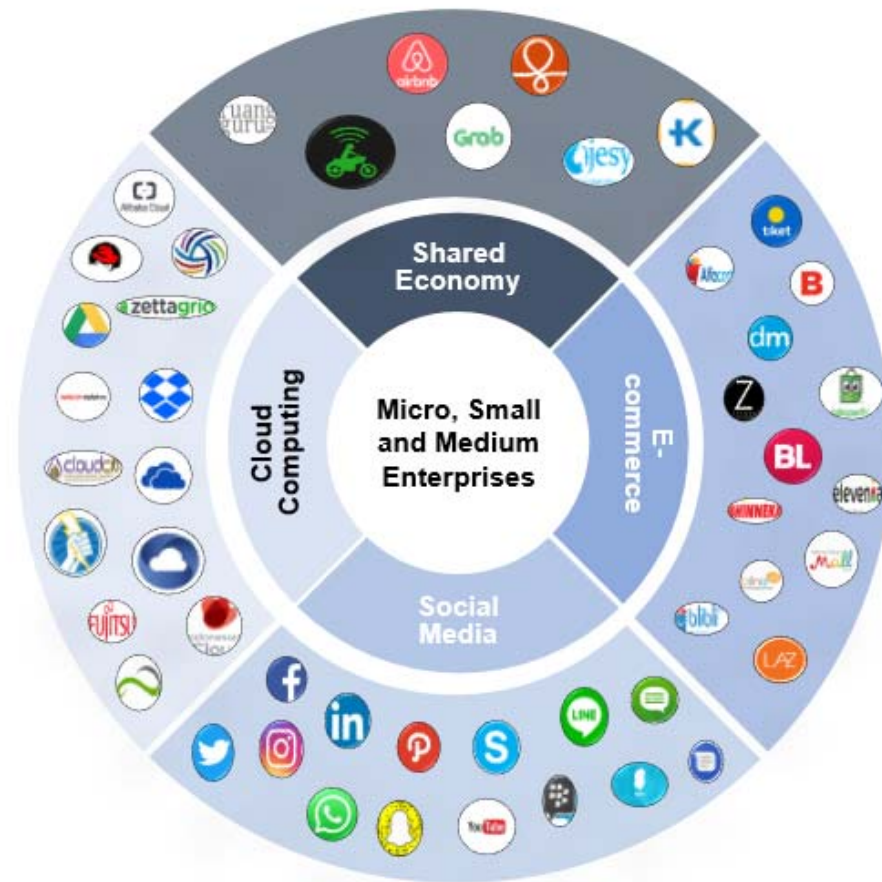
SMALL OR MEDIUM-SIZED

about
50%



Source: World Bank

Technology, Small Businesses and Trade

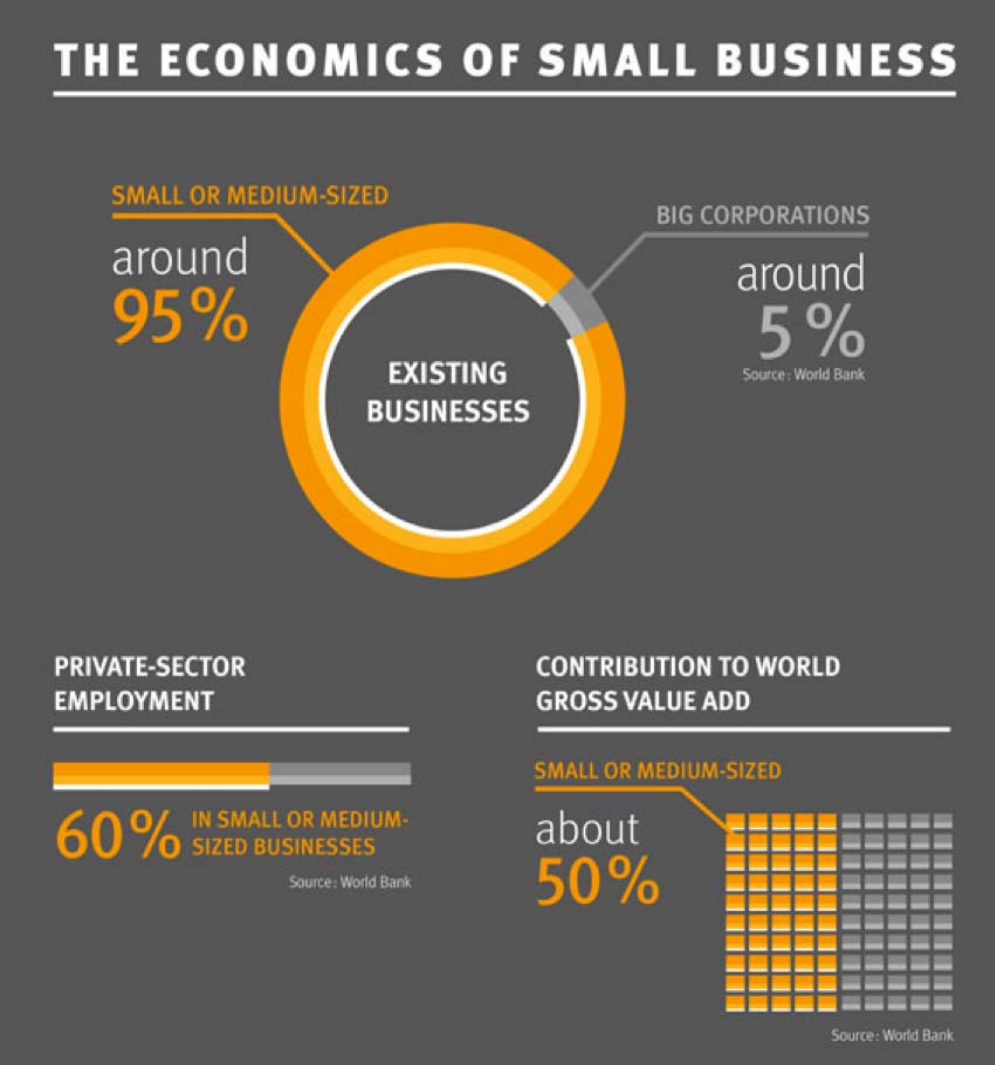


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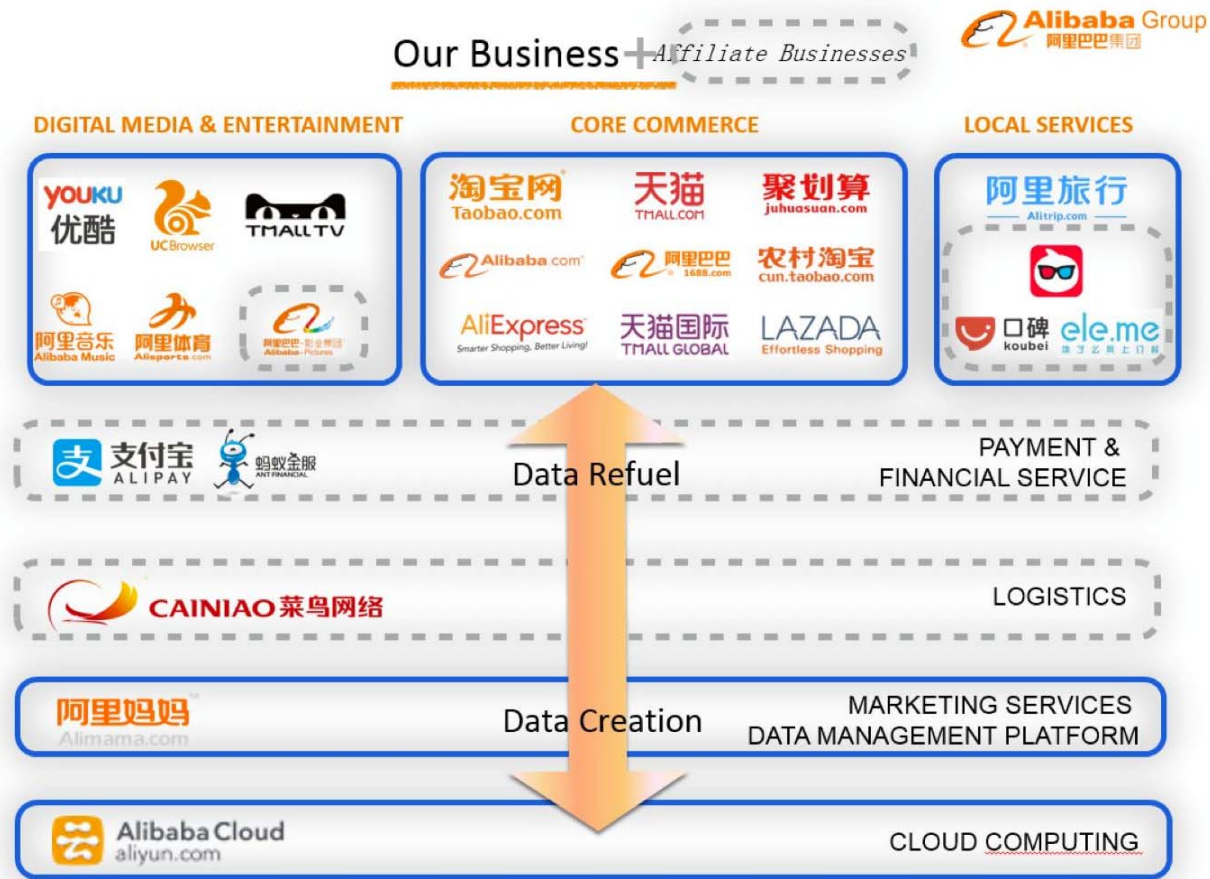
Digital Disruption & Trade in the 21st Century:

MSMEs

- "Leveling UP"
- Leveraging Tech



A “One-Stop Shop”: Case of Alibaba

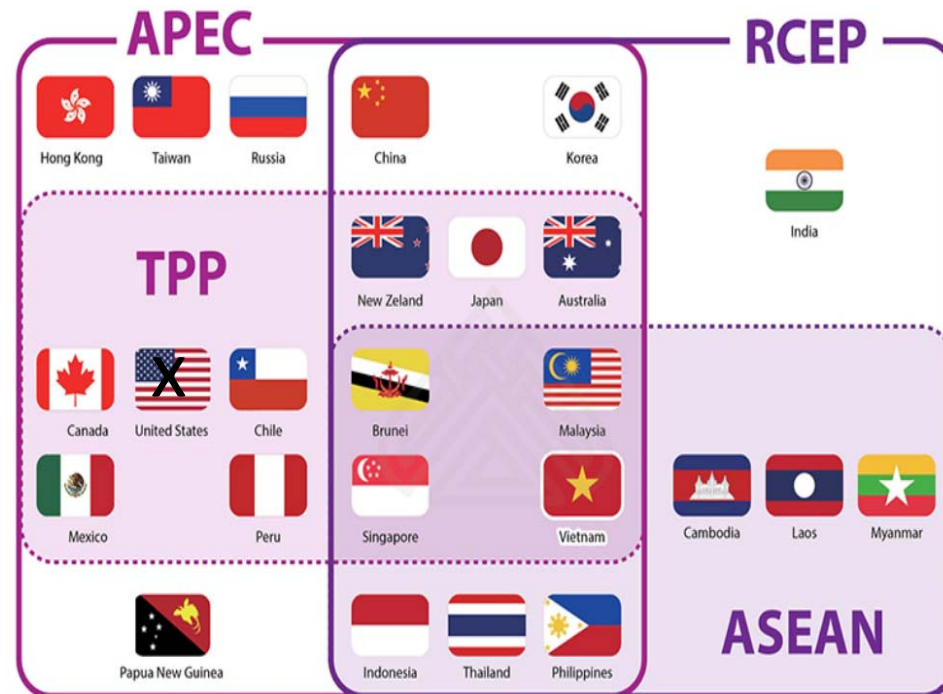


What's Next for Global Value Chains?





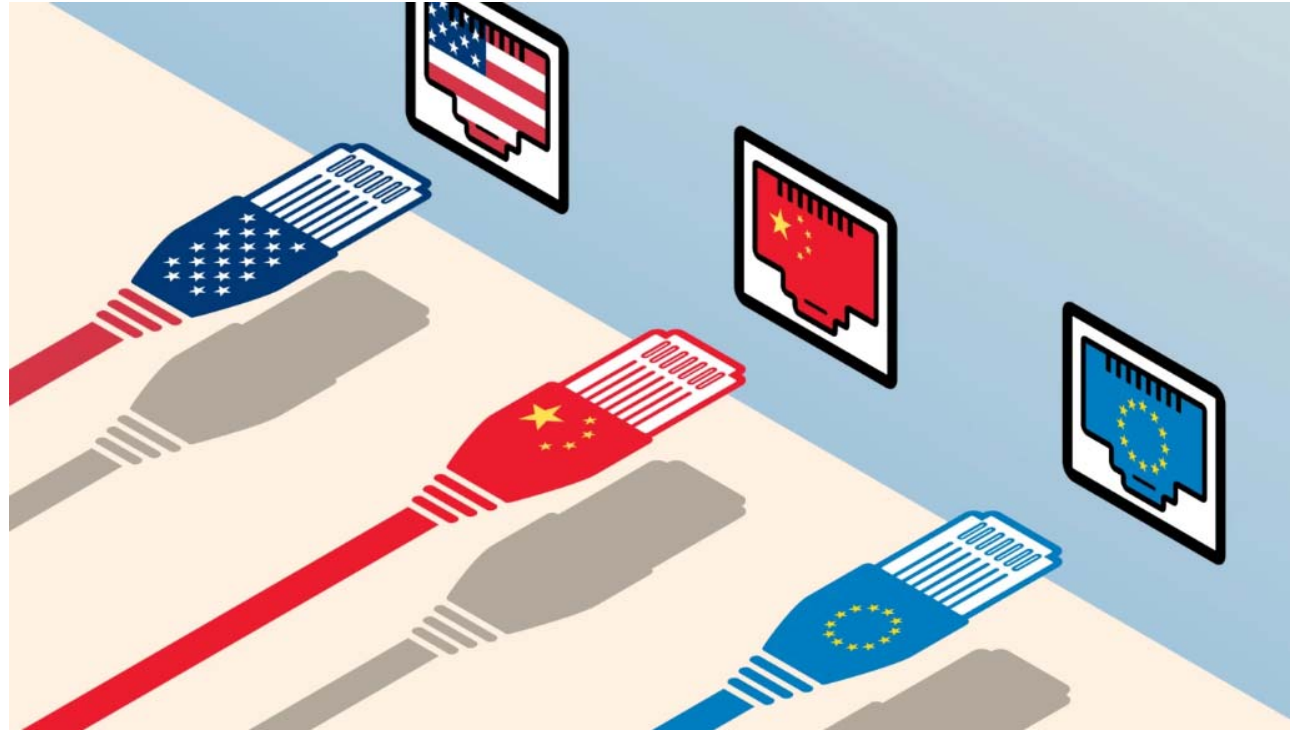
Migration to production hubs within FTA areas.



Increased Trade amongst MSMEs



Increased Data Protectionism



Thank You

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